

NSEDP6 Mid-term Review Background Papers

Preliminary Draft Papers for the Transport and Tourism Sectors

I. THE PUBLIC WORKS AND TRANSPORT SECTOR (draft)

A. Background

1. In June 2006 the Sixth National Assembly at its inaugural session approved the Sixth National Socio-Economic Development Plan that sets out the national policy for the socio-economic development of the country for the next five year period of 2006-2010 (NSEDP). The Government, together with stakeholders, is actively engaged in a midterm review of the NSEDP. The results of this review will feed into the seventh five-year plan from 2011-2015. The Ministry of Communication Transport Post and Construction [(MCTPC), now Ministry of Public Works and Transport (MPWT)] developed its strategy in line with the NSEDP, and publicized the Sixth Five Year Development Plan of MCTPC (herein after MPWT) that delineates broad policy guidelines and activities of the MPWT. This background paper is discussing the achievements so far in the transport sector under the mandate of the MPWT¹, challenges and constraints, and the future priorities. The background paper has been prepared based on consultation with development partners supporting the sector and discussions with MPWT.

2. The main objective for infrastructure development in NSEDP is to continue to maintain, improve, and develop the socioeconomic infrastructure with focus on such areas as inland, international, river, and air transport, telecommunication, schools and health centers to create favorable conditions for development.² The Government will encourage other economic sectors (e.g. private sector), in addition to the public investments, to invest in infrastructure, and build-operate-transfer (BOT) projects will be publicized and domestic and foreign private investors and other economic actors will be called upon to undertake projects.³

3. The targets⁴ for the sector are summarized as:

Increase access to remote areas by building firm roads;

Construct 2,300-2,600 kilometers (km) (1,500-1,600 km asphalt paved and 750-800 km paved roads). Asphalt pave all roads connecting Vientiane Capital with the provinces;

Construct bridges with a total length of 4,000 meters, including 3 bridges over the Mekong river;

Construct national roads to link provinces with Vientiane Capital, and link national roads to neighboring countries;

Construct provincial roads to link districts, particularly to link the poorest areas, and pave 6% of the roads in the country with asphalt;

Expand telecommunications (not covered in this background papers as it is not handled by MPWT)

¹ Part of Chapter G. Infrastructure of the NSEDP

² NSEDP, Chapter G, 1. Overall Strategy

³ NSEDP, Chapter G, 4. Investment Allocation

⁴ NSEDP, Chapter G, 6. Targets

- Improve services at Wattay International Airport to meet the requirements of 1-1.5 million passengers per year;
- Provide water supply to 59% of total households;
- Construct and arrange for successful river transportation;
- Develop and construct a railway system;
- Increase the people's access to electricity, telecommunication, education and health facilities; and
- Develop sports infrastructure.

Achievements during Sixth NSEDP

4. In 2006 the road network carried 93% of passenger traffic (passenger-km) and 75% of freight traffic (ton-km). The Mekong River and its tributaries carried the substantial remaining share of freight passenger traffic. Airfreight is negligible and domestic passenger air transport has reached about 2% of the demand and plays a crucial role in linking urban areas and otherwise inaccessible parts of the country.⁵ Focus in this background paper is therefore on road transport.

5. The total investment projected in the NSEDP amounts to 73,900 billion Kip. 23,100 billion Kip (31.25%) would come from the Government's budget and the remaining 50,800 billion Kip (68.75%) from the private sector. Official Development Assistance is estimated at \$357 million per year, and foreign direct investments (FDI) at \$600 million per year. The resources in the NSEDP for MPWT are 19,200 billion Kip, or 26% of the total resources.⁶ (discuss MPWT dependency on funding from DPs, how much of set targets has been met and how public and private investments are used. Any BOT?)

6. There are only three provincial capitals that are presently not connected directly by an all-weather paved road, these are: Phongsali, Xaingaburi and Salavan. The NSEDP target to provide asphalt paved roads connecting Vientiane Capital with the provinces is not likely to be fully met by 2011.

7. 120 of the 139 district centers are connected to the provincial capitals with all weather asphalt-paved or paved roads. Out of the remaining 19 district centers 4 are without road access (in Phongsali, Bokeo, Savannakhet and Xieng Khouang) roads. This should be compared with the NSEDP targets to construct provincial roads to link districts, particularly to link the poorest areas, and pave 6% of the country's roads in the country with asphalt. While the target to pave 6% of the country's roads with asphalt was already met at the start of the NSEDP (13.6% of the total length was paved in 2005 with bitumen, asphalt or concrete surface) it is unlikely that all districts will be linked by all-year around road access by the end of 2011.

8. The services at Wattay International Airport has been improved and the airport can now handle about 1.2 million passengers per year. The NSEDP target for 2011 is to meet the requirements of 1-1.5 million passengers per year.

9. The NSEDP target is to provide water supply to 59% of total households by 2011. The Ministry of Health (MOH) and Water and Sanitation Authority (WASA) on 24 June 2008 noted that there are currently different statistics on the coverage for water in Lao PDR. A survey done

⁵ Draft Master Plan for Transport Sector Development, *A Guide Map For Sector-Wide Approach*. March 2008. The World Bank.

⁶ NSEDP, Chapter C, Section 2 b Balancing Investment

by MOH (Progress report of Department of Hygiene and Prevention 2000-2005) states 67%, National Statistic (Census 2005) states 49%, MIC3 2005 done by UNICEF 58%, and MPWT (WASA 2007) states 61%. It was also found that different methods were used for the surveys. Due to this it is difficult to estimate achievement so far.

10. The 3.5 km rail connection with the Thai network (on the Friendship Bridge at Nong Khai) and a passenger terminal east of Vientiane in Thanalaeng will be completed by July 2008 linking Lao PDR with the Thai railway network.

B. Challenges and Constraints

The Challenges and Constraints Meeting NSEDP Targets

11. The sector is aiming at a more programmatic approach for the externally funded projects (70% of the total budget for MPWT). Donor coordination remains challenged with a relatively inactive sector-working group but with efforts by MPWT to continue the harmonization process in the sector. It is important that these efforts, today perceived as parallel, are merged and that all partners in the sector reach an understanding on the challenges and needs in the sector if targets are to be met. A way forward could be to reach an agreement on a framework (avoid the sector-wide approach term). The framework agreement, based on a master plan, should be prepared so it could be signed by all major sector partners and include both policy reforms as well as investments by the government, the private sector and development partners.

12. The development of an efficient transport system is of highest importance for regional integration and socio-economic development of the country. In the absence of a railway system and access to the sea, Lao PDR depends primarily on road transport and, to less extent, on river and air transport. Although transport demand is growing [Data?], the transport of passengers and goods is constrained by an inadequate transport network that is further limited in coverage by its poor physical condition.

13. About 14% of the total 35,000 km road network is paved with asphalt, bitumen or concrete, about 33% is gravel road and remaining about 53% is simple earth construction and much of this length is impassable during the rainy season.

14. The 2005 survey of the national and provincial road networks indicated that 80% of the paved roads were in fair or better condition, with around 15% in poor or worse condition and around 5% had failed. By contrast, only 30% of the unpaved roads were rated as fair or better, with around 50% in poor or worse condition and 20% failed. Data for rural road network indicated that 73% of the network as in unmaintainable condition requiring reconstruction. These data would indicate, in general, that the paved road network is being maintained in adequate and appropriate condition, but that the condition of the unpaved network was unsatisfactory. This success can partly be attributed to the establishment of a road maintenance fund that provides 90% of its income towards maintenance of the primary road network and only 10% for maintenance of secondary and tertiary roads. While the data is a few years old it gives a clear indication on the challenges to maintain resource allocations to the paved primary and secondary road works and at the same time increase funding for the tertiary mostly earth road network based on priority. A way forward could be to increase the income of the road maintenance fund and to continue a strict priority in the selection of road sections, to allow for maintenance of the maintainable road network.

15. The role of water transport in Lao PDR is largely constrained by the size of vessel that can navigate the Mekong River, especially in the dry season, and river flow conditions that

makes upriver movement during the wet season difficult. Vessels up to 400 DWT can operate year round on the northern section of the Mekong River, while elsewhere operations are limited to barges of 200 DWT or less. In the dry season, most of the river is navigable only by small, shallow-draft, narrow-beam passenger vessels.

16. The airports in Vientiane, Luang Prabhang and Pakse handle international traffic and provide basic customs, immigration and quarantine services. The other significant airports are Savannakhet and Luang Namtha. All the main airports were recently upgraded. There are ten recognized minor airports located in the provincial capitals and thirty-nine other airports with unpaved runways. The network is being expanded.

17. A major challenge for the sector is the recent steep increased of costs for input. This will reduce outputs and require further allocations to the sector, a sector that already gets 26% of the NSEDP resources. The present tolling of roads and bridges will therefore continue and alternative financing by private sector investments to be further explored. The latter remains a challenge due to low number of vehicles.

18. The 3.5 km rail connection with the Thai network (on the Friendship Bridge at Nong Khai) and a passenger terminal east of Vientiane in Thanalaeng will be completed by July 2008. The plans for a freight terminal/logistics centre at Thanaleng have not been finalized and financing has not been secured. Prospects for the longer term development and extension of a rail network in Lao PDR are severely limited due to the terrain and relatively low population density and restricted economic potential. The only exceptions to this could be the provision of rail links in connection with the exploitation and export of mineral deposits. In pursuing the latter it is important to determine the benefit to the economy of Lao PDR.

19. Development of sports infrastructure has been focused on the contraction of facilities for the Asian Games. This work will be completed as planned.

20. The absence of agreed methods for surveying access to water represents a challenge. It is today not possible to determine progress without substantial input and analysis of field data.

C. PRIORITIES

21. The Government attaches a high priority to the alleviation of poverty, which is especially prevalent in remote rural areas with inadequate access **[What about infrastructure in priority districts?]**. The provision of improved access is seen as a key facilitator in reducing the impact of rural poverty and meeting the MDGs. This will also development trade and allow better access to public services.

Priorities in Sector for Remaining Period of NSEDP

22. The overall strategy in the Transport Sector should ensure that the limited available resources are deployed in the most effective and efficient manner.

23. The transport sector is heavily dominated by the Roads Sector which accounts for almost all domestic movement of people and freight: it is thus to be expected that most expenditure in the sector will be on the maintenance and development of the road network **[Data?]**. Investments in other sub-sectors, i.e. waterways, railways and civil aviation will be limited reflecting their limited roles.

24. The highest priority should remain to be the preservation of the existing strategic National Road network. This is the fundamental asset that ensures the integrity of the nation and allows for connections with neighboring countries. In general this network is constructed to an appropriate standard (given the current levels of traffic demand) and only limited sections require to be upgraded or improved. The only three provincial capitals without an all-weather paved road, Phongsali, Xaingaburi and Salavan, needs to be connected.

25. There is no compelling case for any additional links or new sections of National Road: the existing network extends across the whole country, links the main provincial and population centers, and connects to the main international border crossings. Traffic demand is such that no section is likely to reach or be close to capacity within the near future – with the exception of a few roads in the immediate vicinity of Vientiane or other main urban centers. Improvement and/or upgrading of the network will therefore be limited to sealing of unpaved roads, minor realignments and widening to provide enhanced safety and operation.

26. Remaining 19 of 139 district centers needs to be connected to the provincial capitals with all weather asphalt-paved or paved roads to meet the NSEDP target to construct provincial roads to link districts.

27. Efforts need to continue to increase domestic funds through the Road Maintenance Fund for road maintenance.

28. The direct railway link from Thailand to Thanaleng, Vientiane opened in mid-2008 provides a direct railway connection for passenger traffic with Thailand. The immediate priority should be to build a freight terminal/logistics centre at Thanaleng, and survey the 9 km Thanaleng-Ban Sok Kham link.

29. Given the distances involved in travel within the country, it is suggested that air services should be further developed, gradually starting with smaller planes, between a number of domestic destinations, making use of existing available airstrips. Airports need to be constructed or upgraded in Luang Namtha, Luang Prabang, Pakse, Savannakhet, Don Khong, Savvankhet and Champassack to accommodate up to 2-2.5 million passengers per annum, and the target for Wattay International Airport to accommodate big airplanes and serve about 1-1.5 million passengers per annum needs to be met by 2011. Further, to use the established infrastructure at capacity modernization of flight communication system throughout the country, strengthening of international cooperation in aviation, and improvement of Lao Aviation Company are required.

II. THE TOURISM SECTOR (Draft)

A. Overview

1. Tourism is recognized as a main industry driving the county's economic growth and is included among the 11 priority sectors under the NSEDP. From 2003-2007 tourism ranked either first or second in foreign exchange receipts, and grew from \$87.3 million to \$233.3 million during that period. The sector accounts for approximately 8% of overall GDP and is a major employer, directly employing some 17,000 workers and indirectly employing about 50,000-100,000 people, mostly local communities/people.

2. The tourism sector was identified as key priority export sector for Lao PDR under the National Export Strategy 2006-2008 **[Get details about this]**. As the country moves into a new era of regional and international integration through membership in ASEAN and move towards **WTO accession by 2010**, and as a big player in the GMS Program, the tourism sector is envisaged to grow at about 8-10% annually. Under **the national socio-economic development plan 2007-2008**, the government expects the number of tourist arrivals to reach 1.6 million in 2008 from the 1.4 million in 2007 and generate about \$222 million in direct revenue.

3. To help achieve the NSEDP targets, the government launched **the 2006-2020 tourism strategy**, which defines the policy guidelines and overall goal to develop the sector and promote the sector. The role of the sector has been boosted by a recent party congress resolution aimed at strengthening and developing the sector to boost foreign exchange revenues and provide opportunities (employment and regional integration) for local and urban areas.

B. Key Challenges

4. The growth in the overall tourist arrival numbers is among the fastest in the region **[Data?]**. However, in the earlier part of the decade visitation remained highly concentrated in the main urban tourist centers of Vientiane Capital, the UNESCO World Heritage town of Luang Prabang and Pakse town in Champasak Province. Tourism growth in areas outside these urban destinations was constrained by access, inadequate tourist related infrastructure, lack of awareness on tourism products to attract visitors to rural areas, and weaknesses in policy, institutional and human capacities. Thus, the strong comparative advantage that Lao PDR has to develop sustainable tourism, especially in areas with pristine natural tourism assets and rich cultural heritage was not exploited, used as a mode for poverty reduction, driver of broad-based economic growth, and as a tool for promoting the natural environment and cultural heritage of the country.

5. Laos has poor and limited infrastructure including roads connection linking with neighboring countries; access roads to main tourist sites; limited telecommunication network and international transport; relatively old modes of transportation, especially airplanes; lack of funds availed to tourism entrepreneurs; limited experience and professional skills. The organizational structure and personnel management in tourism is yet to match the growth of the sector resulting in unequal implementation of policy and regulations to facilitate entry and exit. The development of tourism sites is still at a

very infant stages primary with limited or very basic infrastructures available. A main challenge is to control the unwanted exotic culture of drug, women and child prostitution.

6. In addition, a number of external factors including international travel restrictions, endemic communicable diseases are such common challenges that deter long distance travelers. Similarly, global situations such as oil price hikes are but some factors which contribute to determining the quality of service and cost, while at the same time being challenged by the relatively better infrastructure and services offered by neighboring countries.

7. **Better trained and skilled human resource continues to be a major constraint to development of the tourism sector.** There is a need to enhance knowledge, develop technical skills in the sector, through the training of personnel ranging from technicians to managers. There is need to further enhance the educational institutions and professional training/vocational centers on tourism. There is a miss-match between the needs of the tourism industry and what can be provided by the vocational or formal educational institutions, though this is being gradually taken up by the private sector.

8. Cross-sectoral coordination on tourism is yet to be adequately established. There is need for clear networking arrangements among all sectors involved to promote the desired level of infrastructure and services. The government is pursuing the tourism strategy through the identification of 15 international checkpoints. Tourists are therefore able to get visa on arrival along the 13 checkpoints. The government has now three international airports in Vientiane capital, Luangprabang, and Pakse. In order to attract foreign tourists, visa exemption has been granted for seven countries, except Indonesia and Myanmar. Following with replacement of 30-day arrival visa to 15-day arrival visa.

C. Government Strategy

9. The government plans to integrate and modernize the tourism industry and harmonize tourism management both at macro and operational levels. It aims to link the infrastructure and integrate the sector with regional initiatives. The government expects the number of arrivals to reach 1.6 million by 2010, 2.2 million by 2015, and 3 million by 2020 with an estimated revenue of about 370 million.

D. Achievement through development program

10. Through infrastructure program supported by international partners and donors in the form of grant, TA, and soft loan such as construction of road No.A3, 8, 9, 12, 18B; the construction of Mekong bridge; improvement and construction of access roads to tourism sites, airport, electricity system, water supply, communication systems are being completed. In addition, aviation links to tourist centers are being developed.

11. In the past two years, under **the decree of tourism law[?]**, the LNTA has improved its organization structure by shuffling staff at all levels to improve efficiency and administration. These have also been provided with tourism offices in some provinces and districts.

12. In collaboration with MPI, MoE, and MoFA, Labor and Social Welfare, Hotel-Restaurant Association, Tourism business, the LNTA has formulated a program to upgrade staff capacity through specific training activities including short courses for hotel and tourism related fields such as business administration, touring technique, hotel and restaurant/guesthouse operation, foreign language training. The LNTA has sought support from neighboring countries and international organizations to construct tourism vocational training centers to train staff and civil servant serving in different business units to be able to effectively perform their job; organize long-term study on tourism for some students; develop tourism sector personnel at all levels. It is also working closely with the ministry of education to upgrade the tourism curriculum and setting up standards at the national university and vocational and private training schools.

E. Priority:

13. Despite rapid increase in international arrivals to Lao PDR and its overall contribution to the economy, tourism benefits are concentrated around few destinations, and is yet to be systematic as a result of capacity constraints in tourism promotion, infrastructure, and management of the sector's contribution and potential adverse impacts on the culture and the environment or the sustainability of the sector.

14. There is need to establish partnership with the private sector which plays a dominant role in the tourism sector and local communities for a new tourism development pattern that: (i) improve the sustainability of natural, urban and cultural angles for tourism; (ii) create new tourism products that would benefit the poor; (iii) tap the opportunities offered by the recently completed GMS transport corridors to promote tourism; and (iv) enhance human resource capacities in tourism SMEs/PS and among public sector officials to improve the competitiveness and quality of service.

15. Sustaining tourism development depends on the preservation of the natural heritage resource. There is need to adequate plan and manage the natural parks, protected areas and wetland, which are beginning to witness pollution from unregulated activities; there is need to enhance benefit for local dwellings at tourism sites.

16. Hence, there is need to develop effective sustainable tourism practices that conform to (i) promoting and facilitating the reduction, reuse and recycling of materials; (ii) minimizing energy consumption and encouraging the use of renewable sources and improved technology; (iii) improving water quality, through efficient treatment of sewerage and reducing and managing solid waste; (iv) developing and using local supply chains to reduce impact of transportation; and (v) involving local communities in the management of the sites and allowing them to benefit from tourism as an alternative source of income.

16. Through improvement of regulation and management of natural tourist sites, it would help protect against adverse environment effects, and can benefit both the environment and the economic development of the local people. With sound

management of tourist sites through out the country, tourism can significantly contribute to the environment protection, conserve and restore the biodiversity and sustainable use of natural resources. Effective revenue collection from entrance fee can also be allocated to pay for the protection and management of the tourism sites and contributed to the government' revenue.

18. More attention is needed on the investment and business environment (climate) through sound regulation and principles to provide support for the private sector and foreign investors who want to enter the tourism sector. Cross-sector collaboration/coordination among core sectors such as education, health, communication and infrastructure needs to enhanced.

19. Laos currently enjoys the clean environment image and need to uphold this. Solid waste management could become an issue if not properly managed as urban landfill sites become crowded and began discharging methane.

20. Promoting gender equality is an important national goal of the government as reflected in the NSEDP. Under the development path, especially, in the tourism sector women are commonly employed by service sector such as hotel, guesthouse, and so on. As the tourism sector is growing rapidly, there is need to pay more attention in enhancing and creating opportunities for women through promoting women's participation in the tourism related business activities including in areas such as handicrafts production and sales.